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## AN ECONOMIC STRATEGY TOWARD LATIN AMERICA

By

CLARENCE H. SCHMID

Lieutenant Colonel, United States Marine Corps

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USAWC RESEARCH ELEMENT  
(Thesis)

An Economic Strategy Toward Latin America

by

Lt Col Clarence H. Schmid  
United States Marine Corps

US ARMY WAR COLLEGE  
Carlisle Barracks, Pennsylvania  
8 April 1966

## TABLE OF CONTENTS

	Page
SUMMARY . . . . .	iii
CHAPTER 1. INTRODUCTION. . . . .	1
2. DEFINING THE PROBLEM. . . . .	8
3. THE TOOLS OF DEVELOPMENT. . . . .	17
International Efforts . . . . .	17
Regional Efforts. . . . .	22
Domestic Efforts in the Public Sector . . . .	27
Private Sector Efforts. . . . .	30
Summary . . . . .	33
4. EVOLUTION OF UNITED STATES POLICIES AND PROGRAMS (The Alliance for Progress). . . .	36
5. AN ANALYSIS OF ALTERNATIVES . . . . .	51
6. CONCLUSIONS: A UNITED STATES STRATEGY. . . .	65
BIBLIOGRAPHY. . . . .	75
ANNEX A . . . . .	82
ANNEX B . . . . .	83



## SUMMARY

The historical development of Latin America has revealed strong ties of interdependency within the hemisphere. Although varying in degree and substance, the obstacles to economic development are many.

A variety of theories of economic development have been advanced, across a wide spectrum of policy alternatives, that have tended to present a confused definition of the problem. However well intentioned the theorists might be, the task of development is seen in this paper as being a task to be accomplished by the Latins and not by foreigners. The economic and social development in Latin America is concluded to be the best deterrent to combat communist infiltration in this area. The tasks to be accomplished are immense, complex, and require a cooperative effort. Assistance is required from the United States to assist in the developmental effort if progress is to be accelerated.

A variety of agencies are available to assist in the Latin American programs. International, regional, and domestic facilities have been directed toward the solving of the economic and social problems. The United States, through the Alliance for Progress, has proven to be a significant source of assistance. A major problem is seen in discerning between "helpful assistance" and "economic domination" in the implementation of self-help programs. It is in this area that risks to the success of a U.S. strategy is envisioned.

In order to preserve the lasting character of the Alliance as a viable regional force, it is proposed that U.S. assistance efforts be channeled through the Inter-American Committee for the Alliance for Progress (CIAP). The institutionalizing of aid programs of the Alliance is seen as a counter-philosophy to the fears of thwarting the national initiative in Latin America through economic domination.

The strategy proposed involves increased authority for CIAP, coordination of both private and foreign investment, encouragement of local equity participation of private foreign investment, and preferential trade agreements of a limited nature.

The concept of national security is seen as the underlying motivation that should guide all United States policy considerations.

## CHAPTER 1

### INTRODUCTION

For the purposes of this paper, Latin America includes all of the Americas south of the United States, together with the islands of the Caribbean. Our particular attention, however, will be directed to the nineteen politically independent countries that are collectively associated within the Organization of American States. An exception is made in omitting Cuba because of the particular foreign policy implications regarding that country. Although other independent countries exist in Latin America, this study is oriented toward the traditional republics and their common association with the organization of American States and the Alliance for Progress.

The basic importance of Latin America to the national interests of the United States is apparent. Beginning at our southern boundary is a group of nations having a population of over 200 million persons living in an area over twice the size of our country. Tangible recognition of the interdependence of the Americas came with the first major statement of U.S. foreign policy for the area. This statement was contained in President Monroe's annual message to Congress on 2 December 1823 in reference to colonial practices of European powers: " . . . we should consider any attempt on their part to extend their system to any

portion of this hemisphere as dangerous to our peace and safety. . . ." Subsequent diplomatic evolutions emphasized the commonality of interests, goals and ideals in stressing the interdependency of the American states. The vast power of the United States remains as a latent factor in the background insuring the sovereignty of the American family of nations.

Since the rise of the communist Castro regime in Cuba, the traditional aspects of Latin America's strategic importance have given way to more pragmatic considerations. Although Cuba is currently the only communist government in Latin America, the area presents a likely base from which anti-U.S. operations could be conducted. As we look further into the nature of the Latin republics the significance of the communist threat will be apparent.

It must be recognized at the outset that certain pitfalls are inherent in the treatment of Latin America as a collective unit and indulging in broad generalizations. The interests of the United States, however, are such that the strategic importance is wedded to the entire Latin American area and an economic strategy need not be separately structured for each of the several nations. It is expected, however, that individual country programs will be specifically tailored.

Although this paper does not purport to be a socio-economic-political history of the Latin American countries, it is nevertheless necessary to set the scene in which the various forces are

interacting. The following description by Teodoro Moscoso presents a sufficient background and obviates further discussion for the purposes of this thesis:

"The Latin America with which we deal today is nineteen different countries, with nineteen different sets of problems and opportunities. Most of the people speak Spanish. The single largest nation--with a third of Latin America's population--Brazil, uses Portuguese . . . many dialects are spoken by smaller groups of indigenous people, most of whom do not figure in the money economy and hardly are aware that they are citizens of the countries in which they live.

"Some Republics have long traditions of constitutional democracy, while others are only now emerging from a succession of strongman dictatorships. Some have firmly rooted private and public institutions, which need reshaping under the impact of social and economic pressures. Others have as yet no firm institutional base.

"Some are industrially developed, thanks in large measure to immigrants from Europe--from the same countries who sent the millions of people that helped build our nation--Italy, Germany, Spain and Portugal. Most are essentially agricultural--with too many people working too hard to produce too little.

"A few Latin American countries boast highly developed educational systems, with literacy rates comparing favorably to our own. Most are struggling to reduce the waste resulting from mass illiteracy and to give their people the skills so vitally needed for modern development work.

"Some have gone through deep political and social revolutions. Most are now at a pre-revolutionary stage, bent on massive change, and challenging their own leaders and us to help them do the job in freedom and with a minimum of violence. But changes they want and they will get--either with us, or without (and possible against) us. The man with the hoe will make his voice heard."<sup>1</sup>

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<sup>1</sup>Moscoso, Teodoro. "Two Years of the Alliance." International Commerce, Vol. 69, 4 Nov. 1963, p. 2.



The social and economic conditions existing in this atmosphere of political instability have not gone unnoticed by the major communist powers. The power and appeal of Marxism in most of the European countries may have waned, but in Latin America, Vice President Humphrey warns, it remains as a lively alternative.<sup>2</sup> Soviet officials have long regarded Latin America as a principal base for their operations against the United States. Their appeal has been directed to various sentiments and groups for local backing: nationalists, anti-Yankeeists, students, intellectuals, and union leaders. By gaining support among the influential groups having contact with the masses, the communist ideology attempts to inoculate the spirit of nationalism with an anti-Yankee flavor. A foothold has been secured in Cuba from which further communist incursions can emanate. Peking is engaged in a new effort to swing leftist opinion in Latin America away from the Khrushchev policy of economic competition and limited military action, toward the Mao Tse-tung view that revolution must be pushed now at any cost.<sup>3</sup>

Altering the conditions generating revolutions is of vital concern to the security of the United States. Without denying the interrelationship between economic, political and social factors,

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<sup>2</sup>Humphrey, Hubert H. "US Policy in Latin America." Foreign Affairs, Vol. 42, Jul. 1964, p. 585.

<sup>3</sup>Wiznitzer, Louis L. "Sino-Soviet Rivalry in Latin America." The New Republic, Vol. 147, 1 Dec. 1962, p. 17.



attention will be focused upon the United States economic policy toward the Latin American Community. There are various options as to the direction the U.S. strategy should take. One course is that the economic development can best be served by the laissez-faire programs of the free market and private enterprise. Another is that the most effective results will be obtained by turning the coordination of the developmental structure over to an international body under the management of the United Nations. Another course is contained in the philosophy that development is a strictly national problem and should be handled by each sovereign nation using such bilateral arrangements as can be negotiated. Finally, the option is available to devote the main thrust of U.S. assistance through regional institutions while decreasing the direct identification with the United States. It will be the task of this paper to determine which of the alternatives best serves the United States' interests. It is to be hoped that a Latin America can be developed, within the framework of democratic institutions, to a level of social and economic sufficiency that serves both the national interests of the United States and those of each nation involved.

A conflict of interest is certain to arise to which United States policy makers must give careful consideration. Is it truly to our best interests that Latin America develop into a strong, viable community of nations? What would be the impact if that new

community were to follow a neutral position in world affairs? The dangers of a unified Latin America becoming hostile toward the United States could be far more critical than if only one of the countries were to follow such a hostile path. These are the issues creating the Latin American enigma.

The dichotomy in viewing United States policies is also encountered among Latin Americans. A feeling exists in some quarters that the primary U.S. interest is to keep Latin America in the role of an economic colony assuring the supply of raw materials at the lowest possible prices. Professor John Powelson calls attention to a statement made by one of his university students. While not being representative of all students, the view expresses a domestic interpretation of imperialism:

"Imperialism has used, and continues to use, different means depending on circumstances of time and space. Sometimes military occupation is employed to subjugate a territory. At other times the objective, which is always economic domination, is achieved through treaties, pacts, the creation of regional organizations, and the like. Sometimes such agreements are plotted by the large powers, even though representatives of the region to be subjugated may participate in the discussions. Frequently imperialism is imposed through blackmail or bribery of whoever holds the power in the country to be made subservient. At other times it is inflicted through puppet governments, composed of politicians who will throw themselves into the arms of the capitalists in exchange for a few crumbs."<sup>4</sup>

It is into this area of economic impoverishment, social unrest, political instability, and intellectual agitation that the United

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<sup>4</sup>Powelson, John P. Latin America; Today's Economic and Social Revolution, p. 2.

States has entered. Any attempt on our part to maintain the status quo will relinquish the initiative for social and economic change to the communists. Any ascendancy of communist influence in this hemisphere constitutes a threat to the security of the United States.

The United States policy must be a dynamic one, subject to continual review and updating of programs because the problem refuses to remain static. Latin America is undergoing massive changes. New leaders create new attitudes concerning the role of governments. The migration of agricultural workers to the growing urban centers has caused a significant social disequilibrium. Contradictory ideologies have developed that range from Adam Smith to Keynes and from Marx to laissez faire. Rates and modes of political, as well as economic, development have been subject to abrupt variations.

## CHAPTER 2

### DEFINING THE PROBLEM

Although it is not the intent of this paper to present a detailed economic analysis of the region nor a discussion of the various theoretical approaches to economic development, consideration must be given them in order to define the nature of the task confronting economic policy-makers throughout the Americas.

It is tempting to compare the achievements and economic development history of North America with that of the rest of the Americas, but such must be avoided. There is a fundamental difference in the comparative histories of the two continents that should be remembered. Whereas North America was settled by a people seeking to set up a new civilization with their own toil carving out a nation and rolling back the frontiers, Latin America did not share this experience. The colonists of Latin America came to exploit the natural wealth and native labor for their own and the mother country's benefit. The natural outgrowth of this origin was to create a heritage for the large-estate landlords for exploiting the peasants and little sharing of the social responsibility.<sup>1</sup> It is this contrast of the economic individualism of the north with the tradition-directed cultures of Latin

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<sup>1</sup>Teichert, Pedro C. H. Economic Policy Revolution and Industrialization in Latin America, p. 3.

America that frustrates many attempts to understand our southern neighbors.

There is also a difference in attitudes toward the inter-related problems of social and economic development and the machinery of government. Social reform has become an integral part of the development program. Whereas social security programs lagged well behind the industrialization processes in the United States, they have often preceded economic programs in Latin America. This paradox becomes a difficult one with which planners must cope. In their book evaluating the Alliance for Progress, Maritano and Obaid make this observation: "Without government initiative, no social reform will take place in Latin America--and without social reforms, not only will there be no development and growth, but there will be neither democracy nor a free enterprise system left."<sup>2</sup>

Victor L. Urquidi, the Mexican economist, predicts the eventual failure of any program for economic development if it lacks popular support. Essential to establish the necessary support, in his opinion, is communication between the government and the people, an electoral machinery that permits a genuine expression of the popular will, a people that are educated to exercise their democratic rights, and a government that is not

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<sup>2</sup>Maritano, Nino and Obaid, Antonio H. An Alliance for Progress; The Challenge and the Problem, p. 128.



overcentralized. He then culminates his argument with the warning, "A higher rate of economic development is too vital a matter to be left in the hands of incompetent, irresponsible bureaucrats."<sup>3</sup>

How, then, is the task confronting Latin America to be defined? Do we speak of the economic aspects of social objectives or the social aspects of economic development? Is the problem primarily one of creating socially responsible political organizations? Without attempting to separate the social from the economic and political problems, this thesis shall be concerned with the overall development of Latin America and the U.S. economic strategy to further that development.

Of the 19 countries under consideration, it is to be noted that almost three-fourths of the gross domestic product originates in but four nations--Brazil, Argentina, Mexico, and Venezuela.<sup>4</sup> It seems logical to assume that the economic leadership of these four will largely determine the condition and trend of the entire Latin American economy. This inequity of wealth among nations, as well as the distribution of wealth within nations, will be seen as presenting an option to possible courses of action.

The task facing Latin America is indeed a complex and formidable one. Politicians, as well as economists, on both sides of

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<sup>3</sup>Urquidi, Victor L. The Challenge of Development in Latin America, p. 92.

<sup>4</sup>Ibid., p. 7.

the Equator have searched for easy and neat solutions that will quickly remove the causes of underdevelopment and transform the area into a modern developed economy. The problems of economic development, however, are such that they do not lend themselves to panacea measures.

The Latin American leaders know that to solve their problems, they must diversify their countries' crops and their industries. They must also increase their rate of economic growth, but do not have the technical knowledge nor the huge capital to buy the heavy machinery necessary for these new industries. The development problem seems to be one of how to approach the problem on the broad front that is required.

Among the internal factors, the basic obstacles to development are specific aspects of the economic and social structure, relating particularly to the distribution of property and income, the land tenure system, the existence of restrictive and monopolistic practices in production and the level of education and training of the population in general and of the labor force in particular. To all this must be added, in the more strictly economic sphere, the low level of savings, the insufficiency of the public sector's resources, the inflationary processes, and the reliance upon primary products. These various factors do not operate independently, but are closely interrelated, or in some

cases consequent upon one another.<sup>5</sup> In connection with external factors, specific mention should be made of the inadequate expansion of exports, as well as their lack of diversification, and the persistent deterioration in the terms of trade. Urquidi sums up with, "There is almost no country in Latin America that does not have striking inequalities of income, due to the pattern of land distribution, concentration of industry in a few hands, urbanization, inadequate tax policies, and backward social conditions."<sup>6</sup>

In the attempt to formulate an economic strategy toward Latin America, one is not only confronted with the peculiarities of individual countries, but with the divergent theories of economic development. First, there is the argument that the accumulation of savings and their investment constitutes the initial step toward development. This view of Harry L. Robinson advocates the expansion and modernization of the rail, highway, and harbor facilities along with the expansion of power facilities, extensive storage facilities, and other requirements for the suprastructure base.<sup>7</sup> This argument is countered by Meier and Baldwin who, while agreeing with the requirement for capital, argue that managerial

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<sup>5</sup>UN. The Economic Development of Latin America in the Post-War Period, p. 4.

<sup>6</sup>Urquidi. Op. cit., p. 14.

<sup>7</sup>Robinson, Harry J. The Motivation and Flow of Private Foreign Investment, p. 54.

and labor skills limit the amount of capital that can be absorbed.<sup>8</sup> The argument continues that if capital accumulates faster than it can be productively absorbed, inflation will result. Another position considers that price stability is a prerequisite for rapid economic growth and that governments should give it high priority and take the necessary measures, despite the difficulty of such measures, to insure its stability.<sup>9</sup> This argument gives rise to many political debates regarding the role of the governments in controlling, directing, planning, and managing the economy of the country.

Probably the most fundamental recent change in the theories of economic development has been the relative decline in the importance attributed to the scarcity of capital, including infrastructure, and the increase in importance attached to the scarcity of a variety of labor services, particularly those of skilled labor and "middle management."<sup>10</sup> To this, Robert Heilbroner, in The Great Ascent, adds:

"Economic development--that is, the deepening flow of incomes and the widening flow of production--is itself dependent on the presence of an economic population: production-minded farmers, industrial workers,

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<sup>8</sup>Meier, Gerald M., and Baldwin, Robert E. Economic Development; Theory, History, Policy, p. 351.

<sup>9</sup>Baer, Werner and Kerstenetzky, Isaac. Inflation and Growth in Latin America, p. 6.

<sup>10</sup>Davis, Tom E. "Changing Conceptions of the Development Problem: The Chilean Example." Economic Development and Cultural Change, Vol. XIV, Oct. 1965, p. 30.

enterprising factory managers, helpful government officials. So long as these do not exist, economic development cannot commence on a broad base."<sup>11</sup>

One additional factor for consideration concerns the social transformation that will accompany economic development. The current development process is unprecedented in history. Generally, economic development progresses and is followed by social development. That economic development and social progress do not always proceed at the same rate is acknowledged by Victor Urquidi when he wrote, "By its very nature, development may result in long-term benefits which only become apparent after a period of relative sacrifice."<sup>12</sup> The communist appeal to an impoverished, discontented society, however, has dictated the requirement for accompanying the economic program with broad social reforms. Political freedom has also been questioned by Heilbroner when he warns, "The price of development is apt to be a political and economic authoritarianism."<sup>13</sup>

Distinction should be made between the nature of the developmental problems of Latin America with those of that group of countries jointly classified as "the emerging nations." Unlike the new countries that are experimenting with self-government, the Latin republics have a long history of self-rule. Although control

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<sup>11</sup>Heilbroner, Robert L. The Great Ascent; The Struggle for Economic Development in Our Time, p. 53.

<sup>12</sup>Urquidi, op. cit., p. 75.

<sup>13</sup>Heilbroner, op. cit., pp. 16-22.



has been subject to many pressures and changes, the basic institutions of government have been long established. Additionally, the spirit of national unity is inculcated into the cultural heritage. As has been earlier described, the region is not wholly without wealth or development. Wide variances exist in the degree and rates of growth. It is the concentration of wealth in a few hands, the impoverishment of the masses, and the untapped growth potential that distinguish Latin America from the undeveloped "emerging nations." Latin America is clearly a developing, rather than undeveloped, region.

The preceding brief overview of some of the various theories of economic development with relation to the particular environment of Latin America reveals that the task of development is not a single one. Consensus cannot be reached that provides a single approach that will meet all of the requirements facing the several countries of Latin America. Each country of the area has its problems to be individually solved and programmed. The difficulty confronting the theorists and administrators from the developed countries is expressed in what Dr. Raul Prebisch calls his Periphery Hypothesis. In his discussion of the hypothesis, Professor Harry Stark states that "Dr. Prebisch's periphery hypothesis has been subjected to searching examination, but has been judged valid by most of those who have expressed their opinions in writing."<sup>14</sup>

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<sup>14</sup>Stark, Harry. The Emerging World Economy, p. 313.

Essentially, the thesis holds that Latin America's peripheral location, both economically and geographically, imposes conditions upon it that differ from those faced by other nations at the center. This, Dr. Prebisch declares, justifies Latin America in taking measures which, if adopted by the developed nations, would seem unorthodox and self-defeating.

Therefore, it would appear that the development of Latin America is a task which defies the traditional and classical economic theories.

## CHAPTER 3

### THE TOOLS OF DEVELOPMENT

This chapter will discuss those agencies and organizations which influence the rate and character of development in Latin America. They are generally categorized as international, regional, domestic, and private, or non-governmental. The United States effort will be treated separately, as it encompasses unilateral, multilateral, regional, and international aspects.

#### INTERNATIONAL EFFORTS

In 1944 the Bretton Woods Agreement gave rise to the International Monetary Fund (IMF) designed "to promote exchange stability, to maintain order and exchange arrangement among members, and to avoid competitive exchange depreciation." This approach was based on the promise that exchange stability was the cornerstone to economic development. In his analysis of U.S. economic foreign policies, Professor Higgins concludes that the low point of IMF utility was reached in Latin America in 1950. He argued that the Fund was bringing undue pressure on the governments of Latin America with respect to their domestic monetary, fiscal and foreign exchange policies.<sup>1</sup>

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<sup>1</sup>Higgins, Benjamin. United Nations and US Foreign Economic Policy, p. 87.

The Kubitschek government broke off loan negotiations in mid-1959 because the Fund insisted on Brazil's initiating new internal and external stabilization policies as a basis for further loans. As the largest single contributor to the resources of the Fund, the United States received much of the brunt of the Brazilian criticism. Although the Brazilian economy was beset with balance of payments difficulties, inflation, and massive government expenditures, their economists felt that in its relations with Brazil, the Fund was reflecting the attitudes of the United States government, or of U.S. investors, in a degree that was improper for an international agency.

Also arising from the Bretton Woods Agreement was the International Bank for Reconstruction and Development (IBRD). Its mission was (a) to assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes; and (b) to promote private foreign investment by means of guarantees that encouraged participations in loans and other investments made by private investors. A general criticism of the World Bank, expressed by Victor Urquidi, was that its standards had become too rigid, unrealistic, and, in some ways, negative. The result was that it had not fulfilled one of the purposes for which it had been founded, i.e., it failed to support economic development.<sup>2</sup> The United States had put into

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<sup>2</sup>Urquidi, Victor L. The Challenge of Development in Latin America, p. 57

operation its own Development Loan Fund which granted low-interest, long-term credits for projects that were not likely to yield immediate returns. This action gave credence to the criticisms of the Bank that it was not responsive to the requirements of the impoverished nations of Latin America. The Development Loan Fund was not limited to Latin America and represented the primary source of the U.S. bilateral "soft" loans to underdeveloped countries.

In fairness, it must be stated that the World Bank was not intended to be an all-purpose reservoir of funds, but was to provide sound, government-guaranteed loans. From 1948 to 1963 a little over 20 percent of all World Bank loans have gone to Latin America and have financed chiefly hydroelectric and transport projects; in fact, 90 percent have been for that purpose. Other financing institutions have been created to provide for the assistance required in areas not covered by the Bank.

The United Nations has played a significant role in providing assistance to the Latin American countries in their efforts toward achieving economic development. The various UN functions have been in the general fields of financing, but specifically in advisory and technical services.

The establishment of the International Finance Corporation in 1957, the UN Special Fund in 1959, and the International Development Association in 1960 permitted the United Nations system to provide assistance on a larger scale and in a wider field, but its



role in the provision of capital assistance is still small in comparison with the aid programs of the member nations provided on a bilateral basis. For example, the UN Special Fund, though called a Fund, is not a dispenser of capital but a pre-investment service making feasibility studies to set the stage for public and private, national and international investments. The IDA, on the other hand, is a subsidiary of the World Bank that provides long-term, low-interest loans on conditions less rigid than the World Bank itself. The resources come from 18 participating countries, of which the United States contributes 42 percent of the funds.

Advisory and technical assistance has been provided by a number of UN agencies. The Expanded Program of Technical Assistance (EPTA) is a cooperative pooling of the efforts of the UN and the specialized agencies. Coordination is achieved by the Technical Assistance Board (TAB) through which all country programming and allocation of resources is done.

Because of its particular contribution, separate reference is made to the Economic Commission for Latin America (ECLA) of the United Nations Economic and Social Council. Established in 1948, ECLA has devoted its attention to the problems of economic development of Latin America. In addition to many advisory functions, ECLA has conducted training programs that have had considerable impact on economic thought among high-level officials in Latin

America. Dominated by Dr. Raul Prebisch, its executive secretary since 1950, ECLA's publications have consistently presented a particular line of policy in which the impact of the balance of payments, and particularly the terms of trade, on Latin America development problems have been persistently stressed.<sup>3</sup> Although having relatively little to say about domestic monetary, fiscal, and foreign exchange policies, ECLA has conducted a campaign to persuade governments of the region to adopt the development programs suggested by ECLA.

Because of his prominence and influence in the economic affairs of Latin America, as well as his guiding role in ECLA, special mention will be made of Dr. Raul Prebisch. This Argentinian economist is highly regarded for his initiative and breadth of vision. He has long been a champion of the ideology that a strong central government with adequate powers is the best means for curing a society's ills. Being a strong advocate of economic integration and common market concepts, he expounds the point of view that emphasizes that development must be brought about by the Latins' own efforts and their determination to introduce the fundamental changes in the economic and social structures of their countries.

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<sup>3</sup>Higgins, op. cit., p. 102.

## REGIONAL EFFORTS

In 1958 President Kubitschek of Brazil proposed a plan called "Operation Pan America," to which the United States pledged its assistance.<sup>4</sup> The United States agreed to the creation of an Inter-American Development Bank, and to give consideration to stabilizing prices of basic products. Additionally, the United States would give support to the creation of a Latin American common market, intensify its Point IV Program, and encourage the investment of private capital.

By the Act of Bogota in 1960, the previous agreements were formalized. Going farther than "Operation Pan America," agreement was reached in Bogota for an inter-American program for the social development in each country to include measures for:

- a. Improvement of conditions of rural living and land use.
- b. Improvements of housing and community facilities.
- c. Improvement of educational systems and training facilities.
- d. Improvement of public health.
- e. Mobilization of domestic resources, with attention to creation of domestic savings, improvement in fiscal and financial practices, equity and effectiveness of existing tax schedules and

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<sup>4</sup>Maritano, Nino and Obaid, Antonio H. An Alliance for Progress; The Challenge and the Problem, p. 17.

assessment and collection procedures, and allocation of tax revenues.

f. Adequate preparation of development plans and projects.<sup>5</sup>

Of major significance in the Act of Bogota that distinguished it from prior arrangements was the "self-help" concept. Joint obligations were incurred as preconditions for assistance. The recipient countries agreed to perform certain tasks and create specified conditions to which the United States would join in a cooperative effort. The problems of economic development were seen in the light of total development with an increased emphasis on social and political reforms. This constituted an obviously ambitious program that was to become beset with disappointments and procrastinations; however, the seeds were sown, from which future generations might reap the benefits. One of the major characteristics of the Act of Bogota was the new emphasis on social development as distinct from economic development.

The Inter-American Development Bank (IADB) was essentially a creature of the Organization of American States (OAS). In addition to providing capital assistance for economic and social development, the agreement establishing the bank provides for technical advice and assistance, particularly in the preparation, financing, and execution of development plans and projects. It

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<sup>5</sup>AID. Self-Help and Reform, pp. 1-2.

also provided for the development and advanced training, through seminars and other forms of instruction, of personnel specializing in the formulation and implementation of development plans and projects. All the Western Hemisphere Republics, except Cuba, are members of the Bank, and have completed payment of their authorized subscriptions. The Bank's charter also provided for establishment within the Bank of a Fund for Special Operations. The purpose of this Fund is to permit the Bank to extend loans on terms and conditions appropriate for dealing with special circumstances arising in specific countries or with respect to specific projects. By the end of December 1963, commitments by the IADB from ordinary capital had reached \$385,750,000 in 82 loans. At the same time, \$121,700,000 in 37 loans had been committed from the Fund for Special Operations. The Bank had also made 119 loans for \$367,600,000 from the resources of the Social Progress Trust Fund administered on behalf of the United States.<sup>6</sup>

A significant development in regional cooperation is the Central American Common Market. Comprised of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, it is an achievement which has been sought by the Central American countries for over 100 years.<sup>7</sup> It represents an initial achievement of increasing trade among the member countries, although the volume is still

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<sup>6</sup>US Congress. Foreign Assistance, 1965, p. 470.

<sup>7</sup>International Commerce, Vol. 69, Nov. 4, 1963, p. 13.



small in absolute terms. Currently, internal trade among the members amounts to but 15 percent, and of their world trade, 70 percent is with the United States and Europe. This is not to mean that the Central American Common Market has been ineffective. In addition to the movement of over 200 items freely among members, it has increased the awareness of the need for intra-regional communication. Further, it has carried the idea and ideal of economic integration to the attention of other Latin American republics.

Following the example of the integration of the Central American republics, the creation of the Latin American Free Trade Association (LAFTA) by the Treaty of Montevideo in February of 1960 was stimulated. Having no historical background of unification, the Treaty joins Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Paraguay, and Uruguay into an agreement for eventual free trade among themselves over a 12 year period. Although there is no provision initially for a common external tariff, the program of gradual reductions over the specified period represents progress in broadening the market and moving toward cooperative efforts. It was probably the fears of surrendering sovereignty that substituted the complicated negotiation mechanisms for an initial common external tariff. The nine members account for 85 percent of Latin America's population and 80 percent of the area's gross product. Both Venezuela and Bolivia are taking preparatory steps toward

joining LAFTA.

It is difficult to assess the effect of LAFTA at this time because of its relative youth and because only 10 percent of the region's international trade is intra-zonal and the total comprises only 15 percent of the region's trade.<sup>8</sup> An eventual merger, or association, with the Central American Common Market is in the longer range plans. At the moment, the primary concern is with intra-regional trade, and no attention has been directed to many of the other associated problems. The elimination of the flight of domestic capital, solving the exchange rate and balance of payments problems, or the establishment of a regional investment fund are matters that must constitute later phases of the initial economic integration movement.

The primary criticism of LAFTA is directed toward the political or organizational aspects. Keith B. Griffin maintains that a general lack of interest in economic integration exists, except in intellectual circles. Further, the lack of political will, he asserts, is manifested in the unwillingness of member countries to coordinate their development plans, reduce their sovereignty, and organize investment on the basis of a potentially larger market.<sup>9</sup> Felipe Herrera, on the other hand, remarks, "The important thing

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<sup>8</sup>Griffin, Keith B. The Potential Benefits of Latin American Integration, p. 3.

<sup>9</sup>Ibid., p. 5.

is to increase intra-zonal trade and to expand markets for the industries established in the LAFTA countries. But because the system is unambitious, its achievements will be modest. However, with all its limitations, LAFTA is preferable to the isolation or bilateralism of yesterday."<sup>10</sup> It would seem to follow that a merger of the CACM and LAFTA into a single economic unit would be logical.

Felipe Herrera, President of the Inter-American Development Bank, has observed, "It is a distinctive feature of our times that the world is undergoing a process of regionalization or regional nationalism in which countries are organizing themselves into economic or political-economic blocs that are even affecting the general pattern of international relations."<sup>11</sup> Latin America has been no exception to the trend; in fact, regionalism has become a significant force.

#### DOMESTIC EFFORTS IN THE PUBLIC SECTOR

Because of the self-help philosophy of the Alliance for Progress, the internal domestic organizational structure is closely patterned within the alliance concept. Since the Alliance for Progress will be treated in detail in a subsequent chapter, only

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<sup>10</sup>Urquidi, op. cit., p. 12.

<sup>11</sup>Herrera, Felipe. Political and Economic Aspects of Latin American Integration, p. 5.

the topics of foreign capital and land reform will be discussed under this subheading.

Many of the economists in the more developed countries have placed considerable emphasis upon the requirement for capital in a developing economy. Accordingly, this influence is often reflected in the economic policies of those countries and accepted as an indisputable truism. Victor Urquidi, on the other hand, expresses the opinion that the Latins cannot reach agreement on which forms of external capital, private or governmental, are most desirable. Urquidi goes on to say that "in the principal countries, except Venezuela, the majority opinion, . . . is rather against than in favor of foreign capital."<sup>12</sup> Although he agrees that the presence of foreign capital, when added to domestic savings, can increase output beyond that permitted by its own resources, he sees a formidable disadvantage. The burden of servicing foreign debts by capital-poor countries is a significant one. Senor Urquidi concludes that resources from abroad should be accepted only if they can be utilized by a developing nation to advance their development and improve the future balance of payments.<sup>13</sup> This situation, obviously, indicates the requirement for a longer range appraisal of the direction in which the economy is planned to progress. It becomes clear that development is helped

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<sup>12</sup>Ibid., p. 56.

<sup>13</sup>Ibid., p. 45.

not by the volume of foreign capital, but by the uses assigned to the sum total of all available national and imported resources.

The primary source of capital should come from the export trade rather than borrowings. Being engaged in primary production of basic products, the Latin American economies are particularly susceptible to fluctuations in the world prices. When the imports exceed the exports, as is often the case in Latin America, capital accumulation through domestic savings is seldom achieved. Even though a country goes in debt to the rest of the world, the addition of foreign capital can increase the production rate and further the overall economic growth. The existence of a national debt has become more acceptable among most of the world's economists than it was a few decades ago.

The problem of land tenure has long been recognized as a major obstacle to the improvement of agricultural productivity. Some observers hold that this is the crucial issue, above all others, to raise the standard of living and enhance the developmental processes. This is also one of the most difficult to solve if democratic processes are to prevail and the hostility of the politically influential landowners is not to be aroused. The caution that is generally prevailing is contrasted to the intransigent view of Pedro Teichert who maintains:

"The right policy would be to force the landlords to cultivate all of the available land as efficiently



as possible. The taxing of unused land and the raising of agricultural wages would help to keep private land under full cultivation."<sup>14</sup>

It is encouraging to note that eleven countries have enacted legislation for land reforms since 1961, whereas only three (Bolivia, Mexico, and Venezuela) had begun reform action prior to the Charter of Punta del Este. Although not enacting a land reform law, per se, other countries (Argentina, Brazil, El Salvador, and Haiti) have adopted specific measures relating to particular aspects of agricultural development that can be of help in achieving reforms. The difficulties and obstacles to be overcome, and the complications involved in changing the agricultural structure cannot be ignored. That feudalism must go is recognized, but the problem remains one of methodology and of politically acceptable approaches.

#### PRIVATE SECTOR EFFORTS

The subject of private investment generally revolves around the area of private foreign investment and arouses considerable emotion on both sides of a country's borders. Since private domestic investment is a normal consequence of non-socialist economies, this discussion will be directed toward the private sector, in general, and more specifically to investment from

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<sup>14</sup>Teichert, Pedro C.M. Economic Policy Revolution and Industrialization in Latin America, p. 4.

foreign investors. An authoritative estimate indicates that 70 percent of economic activity in Latin America is in the hands of private owners, while 30 percent is controlled by the government. Of the 70 percent of privately owned enterprise, some 90 percent is estimated to be owned by Latin Americans and only 10 percent by foreigners.<sup>15</sup>

That the U.S. private investments have yielded large capital returns and that these earnings have usually exceeded the net increase in the investments themselves has sometimes led to the rather superficial conclusion that foreign private capital contributes nothing since the capital extracted exceeds the annual investments or reinvestments. It must be stressed that foreign capital plays a role that cannot be correctly appraised by simply comparing annual investment with annual yields. The true evaluation must consider the volume of employment generated, the payrolls bringing income to the local labor, tax revenues to the local government, and to the "multiplier-accelerator" effects arising from the purchase of goods and services both by the foreign firms and the employees. The unbalancing stimulus would be considered to be a most desirable role by the unbalanced growth theorists. Even so, as John Powelson observes, "From Mexico to the southern tip of Chile, if there is one common ground on which left and

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<sup>15</sup>US Dept of Commerce. Proposals to Improve the Flow of US Private Investment to Latin America, p. 6.

right can stand together, it is their aversion to the power of foreign enterprise."<sup>16</sup> The local emotions, however, fail to recognize that in 1962 foreign companies, working independently or in partnerships, produced one-tenth of Latin America's total output, paid one-fifth of the total taxes, and accounted for one-third of the total export earnings.<sup>17</sup>

It must be acknowledged, however, that assuming Latin America has been "exploited" to a degree, the foreign investors have filled a requirement that local businessmen have been reluctant to face. It is doubtful that they would have ventured and taken the initial risks that accompanied the oil, mining, and banana production initiated by American investors. As a matter of fact, even today many of the wealthy Latins prefer to deposit their money in European or American banks for safety reasons rather than to take the risk of investing in their own countries' development projects. Adequate data is not available measuring the extent of flights of local capital, but it has been estimated by one observer that \$500 million to \$1 billion was invested by private Latin American citizens during 1962 in Europe and the United States.<sup>18</sup> The common charge of exploitation or domination of American capitalism in

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<sup>16</sup>Powelson, John P. Latin America; Today's Economic and Social Revolution, p. 12.

<sup>17</sup>Scott, John. How Much Progress? P. 8.

<sup>18</sup>Ibid.

Latin America is more of a myth than a reality. The total American private capital investment in the region does not exceed 7 percent of the total domestic investment.<sup>19</sup>

#### SUMMARY

The analyst of Latin American trends and policies of development becomes discouraged by the range of alternatives that face new governments and dynamic officials. The political tightrope is a precarious one. The conservative groups, generally represented by the landowners and military officials, could urge the slowing of programs in matters of reform if the administration is to survive. If new social changes or economic reforms are introduced, the risk of being engulfed in some new coup d'etat or revolution is encountered. It has been considered that the pushing of land and tax reform measures too fast would bitterly antagonize the oligarchs who possess the real "behind the scenes" political and economic power. Unfortunately, the development of a literate, dynamic middle class takes time to acquire the social basis and experience to govern.<sup>20</sup>

The goal in Latin America can be simply stated as maximizing national output and raising the per capita income. Agriculture

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<sup>19</sup>Maritano and Obaid, op. cit., p. 98.

<sup>20</sup>Scott, op. cit., p. 22.

alone will not do it. The long-term rate of development of agricultural production of 3.5 percent has proven to be insufficient to meet export requirements and the real domestic consumer demand.<sup>21</sup> This has, obviously, constituted a limiting factor in the economic development. Additionally, rates of economic growth of 4-5 percent in an area where the population is growing at 3 percent are inadequate to absorb the labor force. The problem of Latin America, in this respect, is to frame the development programs to coordinate economic growth with maximum labor absorption.

The efforts of international agencies to achieve price stabilization will meet a conflict of interests. At best, the results will come slowly and must be in the form of recommendations for ultimate acceptance by each country involved. Producer-countries are reluctant to accept any proposals that require a decrease in production. Similarly, consumer-countries are reluctant to take measures to persuade their nationals to increase their consumption of imported goods. The prevailing attitude is to seek increases in exports and decreases in imports.

The willingness of external agencies to extend credit or make loans has, indeed, provided capital for investment. The servicing of these loans has constituted a heavy burden on foreign exchange export earnings. In 1946-50 the average annual deficit in the

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<sup>21</sup>UN. Economic Development of Latin America in the Post-War Period, p. 2.



balance of payments was \$210 million. It rose to \$620 million in 1951-55 and to \$1.06 billion in 1956-60.<sup>22</sup> The technical considerations of balance of payments problems and foreign exchange earnings will not be discussed in this thesis; however, the existence of the problem as a factor in the economics of development is acknowledged.

After viewing the various agencies of international and regional scope that are working to assist the domestic efforts to bring a higher rate and stage of economic development, an examination of the United States policies is indicated. Although the forces discussed thus far have contributed to solving the problems in Latin America, the basic condition of underdevelopment has persisted. It would be difficult, and probably fruitless, to speculate on what the status in Latin America would have been had the international and regional assistance not been available.

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<sup>22</sup>Ibid., pp. 36-40.

## CHAPTER 4

### EVOLUTION OF UNITED STATES POLICIES AND PROGRAMS (The Alliance for Progress)

In 1958 during his tour of Latin America, Vice President Nixon was subjected to several outbursts of rock-throwing and similar demonstrations directed against United States. Whereas these incidents can be viewed as leftist-instigated and not typical of general Latin American sentiments, they gave rise to an examination and evaluation of current policies. Some critics have maintained that the U.S. economic policy has been notoriously ambiguous and frequently neglectful, citing that until 1961 not even 2 percent of all the foreign aid program was directed toward Latin America.<sup>1</sup> The claim has also been made by Victor Urquidi that U.S. policy was guided by principles "completely unrelated to Latin America's economic development, and based on political and ideological prejudices."<sup>2</sup>

The current U.S. economic policy is woven into the Alliance for Progress, but has historical roots that assist in our evaluation. The Alliance reflects the philosophy contained as the "Fourth Point" of President Truman's inaugural address of January 20, 1949:

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<sup>1</sup>Maritano, Nino and Obaid, Antonio. An Alliance for Progress; The Challenge and the Problem, p. 174.

<sup>2</sup>Urquidi, Victor L. The Challenge of Development in Latin America, p. 56.

"We must embark on a bold new program for making the benefit of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas.

"More than half the people of the world are living in conditions approaching misery. Their food is inadequate. They are victims of disease. Their economic life is primitive and stagnant. Their poverty is a handicap, and a threat both to them and to more prosperous areas.

"For the first time in history, humanity possesses the knowledge and the skill to relieve the suffering of these people.

"The United States is preeminent among nations in the development of industrial and scientific techniques. The material resources which we can afford to use for the assistance of other peoples are limited. But our imponderable resources in technical knowledge are constantly growing and are inexhaustible.

"I believe that we should make available to peace-loving peoples the benefits of our store of technical knowledge in order to help them realize their aspirations for a better life. And, in cooperation with other nations, we should foster capital investment in areas needing development.

"Our aim should be to help the free peoples of the world, through their own efforts, to produce more food, more clothing, more materials for housing, and more mechanical power to lighten their burdens. . . .

"Greater production is the key to prosperity and peace. And the key to greater production is a wider and more vigorous application of modern scientific and technical knowledge.

"Only by helping the least fortunate of its members to help themselves, can the human family achieve the decent, satisfying life that is the right of all people.

"Democracy alone can supply the vitalizing force to stir the peoples of the world into triumphant action, not only against their human oppressors, but also against their ancient enemies--hunger, misery, and despair."

That address announced to the world the United States commitment to the sharing of our technical advancement with underdeveloped countries. It recognized the requirement for capital investment and established the principle of self-help. The political ideology of "democracy" became the basis of a complaint that U.S. economic policy was a political tool being used to assist in the exportation of its form of government.

Although the principles of the "Point Four" statement guided the economic policies of the United States, little emphasis was directed toward Latin America. The Korean War gave a primary orientation toward the conditions of the countries of the Far East and Middle East. Rather than being an act of neglect toward Latin America, the U.S. responded to what was considered to be a greater urgency.

Current U.S. policy, rooted in "Point Four" is described by Thomas Mann, the Undersecretary of State for Economic Affairs, in this manner:

"What is the attitude of our foreign policy toward social reform in Latin America? It reflects our own national experience and our own national ideals. It seeks greater dignity, wider opportunity, and a better life for every man in the hemisphere, not just in theory but in practice."<sup>3</sup>

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<sup>3</sup>Mann, Thomas C. "Social Justice in the United States and in the Hemisphere," Dept of State Bulletin, 30 Nov. 1964, p. 778.

Giving recognition to the social and economic aspects of foreign policy, Vice President Hubert Humphrey stated the objectives in a more pragmatic vein:

"Our present concern with social and economic problems should not obscure the need for vigilance to protect the security of this hemisphere, because there can be no progress, no social and economic development, if this hemisphere is made the battleground for either open aggression or subversion and terrorism. . . We must never forget that any penetration of this area of freedom by outside powers is a threat to the whole /inter-American/ system."<sup>4</sup>

The goals expressed by President Truman and Thomas Mann are equated by Vice President Humphrey to the fundamental issue of national and hemispheric security. It is the assumption of this thesis that the basic policy of the United States concerns the security aspect. Economic development is, therefore, viewed as a desirable concomitant in the achievement of the security goal. The direction in which economic development might be achieved in the pursuit of our security goal is contained in another statement of Vice President Humphrey, "Our policy should be designed to discourage intra-hemispheric rivalry which would Balkanize the continent, as well as to prevent Communist subversion which would divide the hemisphere into an endless struggle between Communist and non-Communist states."<sup>5</sup> The suggestion of some form of regional integration for the area is evident.

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<sup>4</sup>Humphrey, H. H. "The Record of the Inter-American System." Dept of State Bulletin, 10 May 1965, p. 720.

Humphrey, H. H. "US Policy in Latin America." Foreign Affairs, Jul. 1964, p. 587.



Professor Higgins, in his analysis of U.S. foreign economic policy, sums up all of the previous statements with the conclusion that the major aim is to accelerate economic growth in under-developed countries, on the ground that poverty-stricken nations are a threat to the security, peace, and freedom of the American people and that the growth can best be achieved within a non-communist economic framework and with a democratic political system.<sup>6</sup>

Another definition of policy comes from the private sector, that has appeal also to American businessmen as well as filling the requirements established by government spokesmen. Mr. Oswald Schindler, Vice President of the Cleveland World Trade Association, states:

"If we can help the Latin American businessman to help himself to develop a strong, growing and healthy democratic middle class with economic well-being and increasing standards of living for all people, then communism does not have a chance in the Western Hemisphere. And, strictly, from a profit motive, we are going to be able to do a lot more business a lot more safely in a market which will just be a smaller Western Europe."<sup>7</sup>

The United States economic policy, then, reflects the U.S. national interest. Accordingly, there is both political and economic content. In this respect, the foreign critics are correct

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<sup>6</sup>Higgins, Benjamin. United Nations and US Foreign Economic Policy, pp. 4-5.

<sup>7</sup>International Commerce, Vol. 71, June 28, 1965, p. 59.

in discerning certain political and ideological prejudices, but the interpretation that the policies are completely unrelated to Latin America's economic development is erroneously concluded. Economic growth is necessary to the U.S. objective. Perhaps the conclusions stem not from the policies themselves but from impressions derived from observations of the implementing actions connected with the policies.

The U.S. Agency for International Development (AID) has received criticism both at home and abroad because of the exercise of leverage on political matters. However, to the extent that foreign economic assistance is to serve U.S. national interests and to the extent that these interests have a political content, it is inevitable that AID's activities have both economic and political aspects.

The amount and degree of leverage that is exerted by AID becomes a dangerous and difficult course to define. Pedro Teichert declares, "The leader country will lose ground from the very start, if it purposely--or because of lack of understanding--attempts to impose its way of life on other nations. It is very unfortunate that the United States is often accused of doing this."<sup>8</sup> The Alliance for Progress does exert a degree of leverage directed to certain social reforms, toward achieving political stability, and

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<sup>8</sup>Teichert, Pedro C. M. Economic Policy Revolution and Industrialization in Latin America, p. vii.

toward certain fiscal measures. Additionally, goals are occasionally established as preconditions for the approval of individual loans or grants. The credibility of such preconditions may be challenged when the recipient government meets the spirit of the precondition but fails to meet certain of the specific quantitative goals. Decisions connected with the implementation of policies having preconditions are delicate ones that may have deep and far-reaching effects.

Another view of the leverage technique, attributed to the Latin Americans by Dr. John Powelson, portrays the United States as following a role of bribing other countries to follow certain foreign policies, such as their conduct of trade with the Soviet bloc, reimbursement for expropriated industries, how to vote in the United Nations, or whether to maintain diplomatic relations with revolutionary governments.<sup>9</sup>

The commonality of hemispheric interests and movements toward the achievement of inter-American solidarity and interdependence have been of long standing. The first germ was planted by General Simon Bolivar at the Congress of Panama in 1826. In more recent history a series of inter-American meetings gradually led to the creation of the Organization of American States (OAS). In 1933, at Montevideo, the American Republics agreed that no state should

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<sup>9</sup>Powelson, John P. Latin America; Today's Economic and Social Revolution, p. 234.

intervene in the internal or external affairs of another. Later, in 1936, at Buenos Aires, they reaffirmed the nonintervention commitment and agreed to consult together in the event of any threat to the peace of the Americas. In 1938, at Lima, and again with the Act of Chapultepec in 1945, the issues of collective security, consultation, and nonintervention were confirmed. The Inter-American Treaty of Reciprocal Assistance, signed in 1947 at Rio de Janeiro, set up obligations and provisions for collective action. The following year, the Charter of Bogota created the Organization of American States. This regularized and institutionalized many of the relationships which had long been developing among the American Republics in their regional organization, stemming from the Pan American Union which had existed since 1890.

The precise purpose of the OAS is stated in its First Article:

"The American States establish by this Charter the international organization that they have developed to achieve an order of peace and justice, to promote their solidarity, to strengthen their collaboration, and to defend their sovereignty, their territorial integrity and their independence. Within the United Nations, the Organization of American States is a regional agency."

Its essential objectives are stated in Article Four:

- a. To strengthen the peace and security of the continent;
- b. To prevent possible causes of difficulties and to ensure pacific settlement of disputes that may arise among the Member States;
- c. To provide for common action on the part of those States in the event of aggression;
- d. To seek the solution of political, juridical and economic problems that may arise among them; and

- e. To promote, by cooperative action, their economic, social and cultural development.

Article 15 of the Charter carries forward the nonintervention principle, and future discussion will be related thereto:

"No State or group of States has the right to intervene, directly or indirectly, for any reason whatever, in the internal or external affairs of any other State. The foregoing principle prohibits not only armed force but also any other form of interference or attempted threat against the personality of the State or against its political, economic and cultural elements."

That the OAS has become a major instrument of U.S. foreign policy is made clear by the statement of Ambassador Ellsworth Bunker:

"We in the United States vigorously support the Organization of the American States, and that is why we shall continue to work within its framework to carry out our hemispheric defense and development policies."<sup>10</sup>

Annex A to this thesis contains excerpts from the Charter that are considered pertinent to the understanding of the importance of the OAS concern for social and economic matters.

Another underlying policy to which the United States is committed is the economic integration of Latin America. This position was announced in an address by President Kennedy at a reception for Latin American diplomats on 13 March 1961:

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<sup>10</sup>Bunker, Ellsworth. "The United States and Latin America; Special Ties of Interest and Affection." Dept of State Bulletin, 1 Mar. 1965, p. 303.



". . . We must support all economic integration which is a genuine step toward larger markets and greater competitive opportunity. The fragmentation of Latin American economies is a serious barrier to industrial growth. Projects such as the Central American common market and free trade areas in South America can help to remove these obstacles."<sup>11</sup>

This position was reaffirmed in May 1965 by Vice President Humphrey stating, "We support effective economic integration because it is essential to economic and political development under the Alliance for Progress."<sup>12</sup>

A discussion of U.S. economic policy toward Latin America could not be undertaken without giving consideration to the Alliance for Progress. While not attempting an objective analysis of all of its ramifications, this paper will merely introduce the Alliance and present some of the major aspects that have a bearing upon the future strategy of the United States.

On 13 March 1961 President Kennedy proposed the Alliance, stressing the interrelationship of political freedom, material progress, and social change. He emphasized the necessity for social reforms, including tax and land reforms. Like the Act of Bogota, the Charter of Punta del Este was signed by the United States and 19 Latin American members of the OAS, the Republic of Cuba abstaining. This Charter marks the launching of the Alliance

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<sup>11</sup>International Commerce, Vol. 69, 4 Nov. 1964, p. 12.

Humphrey, H. H. "The Record of the Inter-American System." Dept of State Bulletin, 10 May 1965, p. 730.

for Progress and continues the ideas of social development which marked the 1948 Bogota agreement. The Alliance Charter sets up as an objective a rate of increase in per capita income not less than  $2\frac{1}{2}$  percent per year, but adds that the degree of economic development cannot be judged by the level of per capita income alone. Such indices as the level of infant mortality, illiteracy, and caloric consumption are equally important. As distinct objectives, the Charter includes agrarian reform, the elimination of illiteracy and the provision of at least six years of primary education to all, addition of at least five years to life expectancy, augmented construction of low-cost housing for low income families, stressed the avoidance of inflation and deflation, and economic integration of the region. The great need for foreign aid in the economic and social development of Latin America was recognized, and the United States committed itself to providing such aid in substantial quantities.

A significant feature of the Alliance is the nature of the self-help provisions. The establishment of specific economic and social targets provides a basis for judging the degree to which countries have undertaken adequate self-help measures and provides standards for evaluation of programs. The mutuality of obligations on the part of both the recipients and the donor makes this a unique program. The U.S. Government made specific pledges of assistance subject to the undertakings of self-help measures.

As a "co-feature," the United States created a Social Progress Trust Fund to be administered by the Inter-American Development Bank. The purpose of this fund is expressed in Section 1.03 of the Agreement:

"The purpose of the Fund shall be to provide capital resources and technical assistance on flexible terms and conditions, including repayments in local currency and the relending of repaid funds and interest, in accordance with appropriate and selective criteria in the light of resources available, to support the efforts of the Latin American countries that are prepared to initiate or expand effective institutional improvements and to adopt measures to employ efficiently their own resources with a view to achieving greater social progress and more balanced growth."

The Alliance for Progress may be viewed as far more than merely a change in strategy to counter the growing unrest, impoverishment, and an ultimate revolution. This represents, according to Powelson, a pronounced revision in the capitalist ethic with a greater willingness to assume collective responsibility. It was the experience of the Great Depression, Powelson maintains, which gave the United States the awareness that poverty and suffering was not necessarily the result of a lazy and indolent population. The New Deal sought to promote individualism by collective authority.<sup>13</sup> The concept of social responsibility became a distinguishing feature of subsequent U.S. administrations. The ideological rationale behind the Alliance is expressed by Thomas Mann:

"We sympathize with the desire of others to be free because we insist on freedom for ourselves--because our

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<sup>13</sup>Powelson, op cit., p. 31.

people want only to be good neighbors with all like-minded nations, to do our part in the great cooperative effort which is the Alliance for Progress, and to help build a community of free, strong, independent American states, each capable of playing its full role in the common search for a better and more secure hemisphere."<sup>14</sup>

Without going into a project accounting nor detailed program description, a brief summary of some of the results of Alliance efforts reveals that by mid-1965, Alliance funds built 327,000 homes, 25,390 classrooms, 853 health centers, drilled or installed 1600 water systems, produced 12 million books, and fed 22 million people.<sup>15</sup>

The Alliance has been criticized that it takes too much time to get projects into active operation. Lengthy studies and reviews were considered as having the effect of stalling progress. Further, the piecemeal financing of long-term projects was criticized by Dr. Raul Prebisch:

"This is a long-term policy, which should not be offered by installments or altered or readjusted under the influence of pressing circumstances. Persistence of purpose is essential and any weakening of lending policy due to too much impatience may discourage those in our countries who are fighting for reform and development. Nothing can be built on shifting sands."<sup>16</sup>

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<sup>14</sup>Mann, Thomas C. "The Western Hemisphere's Fight for Freedom." Dept of State Bulletin, 19 Oct. 1964, p. 551.

<sup>15</sup>"Alliance Records Year of Progress." International Commerce, 19 Apr. 1965, p. 20.

<sup>16</sup>Prebisch, Raul. "The Alliance for Progress; Economic Aspects." Lecture at Pan American Union of 4 Apr. 1962.



After criticising the need for a better coordination of planning at the national and international level to create viable effort, Maritano and Obaid conclude with this observation:

"A major danger which the Alliance faces today is pessimism from within and from without Latin America. Both Latins and North Americans could get discouraged by the meager balance sheet of the past two years, for different reasons. Neither attitude will solve the problem of justice and freedom in Latin America, because it is no longer a purely national problem; it is their problem and ours as well.

"Without losing focus on the fact that Latin American problems are both economic and social, and that their social aspect is of great economic importance for the success of both the Alliance and the progress of Latin America, neither the Latins nor we should forget that developing a milieu conducive to concerted social action is an extraordinarily complex task. It nevertheless remains the most urgent of the day."<sup>17</sup>

The necessary pressures that must be exercised upon domestic residents in pursuing their own vested interests, must be accomplished by the local governments and not by Washington. We must make clear to those governments our stand on the necessity of changes, maintain consistency in administration of our foreign aid, and expect the local government to assure popular support. The United States should not be put in the position of imposing changes in one direction or another within a foreign, sovereign country. The Alliance for Progress is a program involving reciprocal obligations and, as such, requires the "full faith and

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<sup>17</sup>Maritano and Obaid, op. cit., p. 132.



confidence" of all participants. The United States must respect the sovereignty of the Latin American countries, while they must respect the obligations to which they agreed at Punta del Este.

#### SUMMARY

The evolution of the United States Latin American policies has reflected the national interests of this country. From the rather arbitrary line of the Monroe Doctrine, an atmosphere of consultation and hemispheric cooperation emerged. President Truman's Point Four ushered in the United States' willingness to share in the economic and social development of the impoverished areas of the world. Seeking assurances that the most productive results are obtained from the U.S. assistance, it is to be expected that frequent differences will arise concerning the administration of the aid programs. The leftist critics are quick to seize upon such phrases as "economic imperialism," "U.S. domination," and "economic colonialism" in order to discredit our efforts and subvert the programs. The problems connected with the application of leverage are delicate ones. The principles of sovereignty, nonintervention, and nationalism come face-to-face with issues of reciprocal obligations, integrity, and economic efficiency.

## CHAPTER 5

### AN ANALYSIS OF ALTERNATIVES

The preceding pages have presented a broad view of the conditions of development in Latin America as well as the external and internal agencies designed to offer assistance to its economic development. The current U.S. policy has also been described as being embodied in the Alliance for Progress. Economic assistance to Latin America in 1960 and 1961 was in excess of half a billion dollars each year. After the Alliance began functioning, the amounts approximately doubled. In view of the size of the expenditures and the unfinished tasks remaining, it is considered that a review of the strategy is indicated. It is inconceivable that the Charter of Punta del Este would be repudiated by the United States as a point of national honor is at stake. Attitudes and implementing policies need to be aired; however, less specific programs divert attention from the basic objectives of our policies.

Upon reviewing the past, one finds that government instability still prevails, widespread poverty and income inequalities still characterize significant portions of the growing population, far too many people are still illiterate, land tenure policies remain a popular problem, and authoritarian administrations continue to suppress democratic processes. The philosophy of foreign aid and the theories of economic development have been popular subjects to

be advanced by academicians, economists and politicians, although the solutions have often been in violent opposition. The intentions of the United States have been questioned both at home and abroad. The American tradition has, apparently, expected an expression of humble gratitude from the recipients of our foreign aid. Perhaps this is at the root of the U.S. foreign policy dilemma--it is misunderstood by both parties to the aid.

The situation in Latin America is complicated by the demand to accomplish tremendous achievements in a short period of time. The lack of immediate results has brought despair, frustrations, and disappointments. Upon tabulating organizations and programs directed toward the development problems, one is reminded of the "Too Many Cooks" proverb. The "outsiders" have not been content to consider economic development as a Latin American problem but take it as one of their own and amenable to the measures that brought their own economic development. Raul Prebisch has struck out at the foreign influence:

"Latin America has to project its own image--its authentic image--in this process. We have to shape it according to our own ways of feeling and thinking and to our own concepts of actions. We cannot repeat or imitate the historical course of the capitalistic development of the most advanced countries. And we have consequently to find our own path with our own creative powers. Naturally, this does not preclude intellectual influence from outside. On the contrary, but these influences should be only an element--and

an important one--in the elaboration of our system of thinking to guide us in our attempt to act upon economic and social progress."<sup>1</sup>

The view expressed by the U.S. Information Agency contains the United States ideological position:

"Democracy--civil rights and freedom of the individual, representative government, free enterprise--is a vital ingredient of the Alliance for Progress. It is the essential base on which all components of the Alliance structure are to be built. We must recognize that it will not be achieved simply by attempting to transplant our own brand of democracy, or through laws which would seek to impose democracy on the people. Democracy must grow gradually, be nurtured, sometimes painfully, as an indigenous frame of mind, as a personal and national way of life that is understood and accepted."<sup>2</sup>

If democracy is an essential element of the Alliance, does not a dichotomy of objectives arise? Is it not reasonable to question whether the U.S. strategy toward Latin America is to establish some form of democracy or is it to prevent communist hostility from gaining political domination? The United States security interests can be satisfied without democracy in Latin America just as long as the communist camp is not afforded the opportunity to develop. The statement of Vice President Humphrey, cited earlier, was that the security of this hemisphere from penetration by outside powers is the primary goal of the United

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<sup>1</sup>Prebisch, Raul. "The Alliance for Progress; Economic Aspects." A Lecture given at the Pan American Union, 4 Apr. 1962.

<sup>2</sup>USIA. "Democracy: Vital Ingredient of the Alliance." Inter-American Economic Affairs, Spring 1965, p. 109.

States. Therefore, let us consider the alternatives available to best achieve that security objective.

The first alternative to which the policy-maker is confronted is the concept of intervention. Whether or not the United States is to enter into the internal economic affairs of other sovereign countries must be decided at the outset. Virtually all other policies are related to the question of intervention. The choices, then, narrow to these, according to T. E. Davis:

a. To attempt to apply external pressure to force changes designed to promote economic growth by linking the availability of assistance funds to specific reforms or programs; or

b. To remain patient "good neighbors" and trust that change will occur in the absence of direct pressure and that it will have profound beneficial effects on the political as well as the economic base of society.<sup>3</sup>

The case in favor of intervention, expressed by Professor Higgins, is that any country carrying the worldwide responsibilities of the United States is obliged to intervene in individual countries in order to lead the Free World toward its economic and political objectives. Foreign aid, he says, is the primary tool to be used as "carrot-and-stick" to persuade other governments to adopt the policies which we consider best suited to the achievement of steadily rising living standards and to the strengthening of democracy.<sup>4</sup> The decision to intervene must carry with it an

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<sup>3</sup>Davis, Tom E. "Changing Conceptions of the Development Problem: The Chilean Example." Economic Development and Cultural Change, Vol. XIV, Oct. 1965, p. 31.

<sup>4</sup>Higgins, Benj. United Nations and US Foreign Economic Policy, p. 7.



evaluation that the gain to the Free World in greater stability or more rapid growth would far outweigh the loss involved in the ill-feeling toward the United States that might be generated by the intervention.

The leverage techniques employed in administration of assistance funds may create cries of "economic blackmail" among the recipients. If the United States is to direct the internal economies of the recipient countries, credence is given the fears of Latin Americans that their countries might become "economic colonies." Self-sufficiency is most difficult to achieve, because the point at which the control is relinquished to the local government is a nebulous one to define. It is seen that much of the administration of the Alliance for Progress has been of the intervention variety, through the use of leverage in withholding funds and/or project approvals contingent upon the achievement of some other condition.

The case against intervention has been repeatedly expressed by the Latins, as cited earlier describing the events subsequent to the agreements at Montevideo in 1933. Dr. Prebisch's opposition to foreign intervention was presented earlier in this regard. The spirit of nationalism and its dream of economic independence is antithetical to any program that places the United States in a dominant, directive role.

The subject of intervention takes on a different dimension since the Alliance for Progress was initiated. All signatories agreed to the establishment of specific goals and preconditions in this mutual program of self-help. The United States has every right to be assured that its contributions from the public treasury are expended in accordance with the purposes for which the funds were appropriated. However, the zeal of American administrators should be guarded to insure that preconditions are not established beyond the bounds of the Charter agreements. The Alliance is clearly a "two-way street" in which all participants assume obligations that must be discharged. The road signs and highway markers of that street are likewise obligatory.

A policy often mentioned in connection with the intervention strategy is the "showcase" or demonstration technique. Implementation of such a policy would entail the selection of one or more countries and devoting an all-out effort to induce a rapid rate of growth and social reform in order to show the world the results that can be obtained by United States influence and leadership. Professor Higgins prescribes the technique in which this policy would be implemented:

"There should be only one string attached to US aid: the recipient country should have the absorptive capacity to make good use of the aid, should itself be making a maximum domestic effort, and should have completed a workable development program supported by appropriate development and stabilization policies.

Accordingly, the bulk of US aid should go to countries nearing self-sufficiency."<sup>5</sup>

Although the goals of the Alliance for Progress have set certain preconditions, it is believed that the self-help philosophy precludes an outright intervention strategy. The intervention strategy entails the complete domination and putting into action all of the resources of the various United States government and private institutions.

Assuming that the United States does not desire to enter into specific economic intervention but to assist in the development of the Latin American countries, another range of options is available. These involve the methods of bringing the resources to their greatest fruition in the development of our neighbors' lands. The various modes of action are contained in the level at which they are administered. First, aid can be administered on a bilateral or multilateral basis, such as the case with the Alliance for Progress, in which the United States retains final authority to approve country plans and to evaluate country performance. Secondly, the U.S. resources can be put at the disposal of an international body for administration and coordination with the assistance programs of other donor nations. Thirdly, assistance resources can be directed by a regional organization in accordance with specific "rules of the game."

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<sup>5</sup>Ibid., p. 206.

Let us first look at the direct aid technique. The Alliance for Progress is undergoing some structural changes at the time of this writing, to which reference will be made later. One of the criticisms has been that it lacked the organization of a dynamic alliance system and was subject to too much "fit and start" performance. There is a growing sentiment that is tending to restructure the Alliance to more of a community viewpoint. Such a consensus was expressed at the Second Ministers Conference of Rio de Janeiro in November 1965. The motivation for the structural change has been a desire to remove the feeling of U.S. domination as well as to strengthen Latin controls of their development programs.

In administering an aid program the initial conflict arises concerning the location of the emphasis: aid, trade, or private investment. To avoid a lengthy discussion that often remains on the theoretical and emotional plane, it will merely be granted that all three are essential to achieve social and economic progress. Brief mention will be given to the areas of sectoral investment.

Raul Prebisch has warned that "foreign funds should not be construed as an instrument for influencing the free determination of Latin American countries."<sup>6</sup> This is a concept which has a far-reaching effect in our government functions. If Latin America embarks on a rational program of development with the proper range of prior planning, it is imperative that the U.S. policy remains

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<sup>6</sup>Prebisch, op. cit.

steadfast to its promises. If the external support turns out to be inadequate because of changes in the U.S. strategy, the failures in Latin America will be justly placed on our Capitol steps. No objectives can be attained unless the commitment is firm and lasting on both sides. This is not, however, to preclude periodic examination and revisions to correct errors in orientation. The obligation is clear.

In order to permit the right kind of programs and policies to be formulated in recipient countries, it must be possible for the United States to guarantee long-term support. Although the Congressional support for the Alliance for Progress has been significant, the subject of foreign assistance, in general, arouses much discussion, paring, and legislative restrictions. In their treatment of the general area of foreign aid, Professor Higgins charges, the Congress provides no basis for long-range planning on the part of underdeveloped countries.<sup>7</sup>

The role of the private sector has been stressed in the Alliance, and many additional words have been written and spoken on the subject. Leland L. Johnson has offered an appropriate summation:

"Whether this goal of the Alliance (\$300 million in private funds) is attained or not depends a good deal on what the United States government does in the future to promote or discourage private investment. The amount

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<sup>7</sup>Higgins, op. cit., p. 137



of new capital going into Latin America could rise a good deal if the US government were to initiate new and perhaps quite radical measures to promote investment. The issue is not whether investment can reach some assigned goal, but rather whether the benefits from attaining that goal, in terms of United States national interests are sufficiently great to warrant the effort required."<sup>8</sup>

Another view pertains to the conceptual conflict of "government-to-government" versus "private-to-private" fund assistance. It has been frequently advanced that the business community of underdeveloped nations is the one element that is vitally interested in stability of governments and economic growth. Since the official regimes may be too transitory over the "long haul" and the local businessman endures, it may be that the best approach for the foreign aid concepts would be to direct the negotiation and implementation through the foreign business community. Maritano and Obaid offer the following observation:

"It is the opinion of many Latin American businessmen, economists, and foreign observers, that foreign aid to Latin America should not be synonymous with local government aid, the reason being that nepotism is an old American disease, and venality is too much of a temptation for many politicians. But, assuming perfect honesty in the public administration of this aid, help to the private sector would undoubtedly create more incentive among the business community and provide quicker job opportunities and better education."<sup>9</sup>

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<sup>8</sup>Johnson, Leland L. The Course of US Private Investment in Latin America Since the Rise of Castro, p. 34.

<sup>9</sup>Maritano, Nino, and Obaid, Antonio H. An Alliance for Progress; The Challenge and the Problem, p. 106.

The second non-intervention alternative is presented in the international approach. As United States foreign aid expands, the accusations of economic imperialism and other boomerang effects have been manifested. To allay those critics, an increase in the amount of aid from other sources is necessary. Lacking such a source of funds, international organizations such as the United Nations become a significant factor. The international administration of foreign aid removes the domination by the giving country and provides for the coordination of aid programs extended by other developed countries. One writer has observed that the underdeveloped countries have come to regard the United Nations as a projection and protection of their sovereignty. Individually, they are in a weak position in bargaining with the industrialized nations on economic matters. The exception lies in convincing the United States that they are particularly vulnerable to communism. Collectively, they can assume a more self-respecting stance and be more influential. For the underdeveloped countries, the high road to dignity and status is via the United Nations.<sup>10</sup>

In judging the relative efficiency of the U.S. and UN programs, both the political as well as economic objectives must be taken into account. If the two programs are equally effective from all other points of view but the U.S. assistance causes more

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<sup>10</sup>Asher, Robert E. Economic Cooperation under UN Auspices, p. 291.

resentment, then Professor Higgins concludes that the United Nations program is more effective in achieving the United States objectives.<sup>11</sup>

A side effect of United Nations participation can fulfill another of our foreign policy objectives. If there have been fears in some quarters that the UN has begun to outlive its usefulness, the enhanced role in the battle against ill health, poverty, and illiteracy will contribute to its prestige. Once more the United Nations will be identified with the enduring aspirations of the common man toward the achievement of prosperous peace.

The third and last alternative of the non-intervention strategy is in the application of assistance through a regional organization. Until recently, the U.S. had sole responsibility for deciding just how U.S. Alliance aid funds should be distributed. There was some chafing among Alliance participants who felt that they should have a greater part in the proceedings of the Alliance. As the result of a study undertaken by former Presidents Kubitschek of Brazil and Lleras Camargo of Colombia at the request of the OAS, recommendations were made for the establishment of an inter-American committee. This committee would allow the Latin American nations the opportunity, and the responsibility,

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<sup>11</sup>Higgins, op. cit., p. 161.

to express their best collective judgment in deciding what projects that Alliance should support and the degree of financial support required. It was agreed by all the participants of the Alliance that the agencies committed to assist in Latin American development should concert their efforts on a team basis if the demanding programs were to succeed.

The creation of the Inter-American Committee on the Alliance for Progress (CIAP) in January 1964 was to give a regional status to what began as primarily a United States endeavor. The committee is an eight-man executive group empowered to review national programs and recommend allocation of external financing. The members of the committee are economists and statesmen who advise the Latin American governments on planning and economic policy. CIAP's chairman is the former Colombian finance minister, Carlos Sanz de Santamaria, serving a three-year term. The U.S. representative is the State Department Policy Planning Chief, Walt W. Rostow.

Annex B of this thesis contains the resolution of the Second Annual Meeting of the Inter-American Economic and Social Council of 15 November 1963 that created CIAP.

Closely allied to CIAP is the trend toward a regional economic integration. The idea of economic integration is embodied in the Alliance and has been given significant support. Stating that "the great drive towards integration must be nourished," Felipe Herrera urges the stimulation of public opinion into a vast



ideological movement embodying the concept.<sup>12</sup> He further expands the concept of a Latin American Economic Community:

"A legal and institutional expression of a regional common market in which our national economies could freely trade goods and services unhampered by internal barriers and subject only to a single, common external tax. Such a community requires an institutional framework equipped with mechanisms that can harmonize the legitimate interests of the member countries, not through a super-government comprising national sovereignty, but through common institutions in which such sovereignties join on a higher plane to direct matters of mutual interest."<sup>13</sup>

Victor Urquidi would take the idea of economic integration even further. He feels that sooner or later, some smaller Latin American countries will have to relinquish their concept of national statehood and, through cooperation or more absolute means, merge into a broader economic and, perhaps, political community.<sup>14</sup>

The choices, then, presented to the United States in selecting an appropriate economic strategy in Latin America first require a decision concerning the matter of intervention. Assuming the persistence of the doctrine of non-intervention that has prevailed for the past 30 years, the next level of alternatives involves the level of application of U.S. assistance. Three possible areas were offered: direct aid, international administration, and program administration on a regional basis by a multinational body.

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<sup>12</sup>Herrera, Felipe. "Political and Economic Aspects of Latin American Integration." An address 12 Jun. 1964 at Bogota, Columbia.

<sup>13</sup>Herrera, Felipe. "Toward a Latin American Economic Community." An Address 24 Aug. 1965 at Buenos Aires, Argentina.

<sup>14</sup>Urquidi, Victor L. The Challenge of Development in Latin America, p. 92.



## CHAPTER 6

### CONCLUSIONS: A UNITED STATES STRATEGY

Acknowledging that the Alliance for Progress has played a major role in the expression of the current U.S. strategy toward Latin America, it is emphasized that the Alliance is but a tool of the strategy and does not comprise the whole of the United States position. The strategic importance of the region is such that it should continually remain uppermost in our foreign policy considerations. Let us now look at a strategy having the Alliance for Progress as its cornerstone.

It may be necessary that a reorientation in our thinking occur. We are determined to prevent further infiltration of the communist influence of either Soviet Russia or Communist China into the western hemisphere. Since security is paramount, all other objectives are to be judged insofar as they contribute to this end. It is believed that if the economy of Latin America is enriched to provide a higher standard of living for its people, communism can be repulsed. By-products of economic development are expected to be manifested in many social improvements of increased education, improved health, and more adequate housing. Political advantages will occur in the growth of stability and durability of governments as the needs of the people are given a higher degree of satisfaction.

Since the goal is to provide for overall continental security, we must be willing to permit a wide array of variance from the American form of democracy. While espousing "rights of self-determination" on the one hand, the United States must be careful to permit the "right of dissent" to the other peoples. Latin America has a rich cultural heritage upon which viable governments can be built, and they should be encouraged to follow in their own image and not that of the Anglo-Saxon North Americans, necessarily.

At Latin America's current state of development, it is irrational to assume that the institutions and practices of our highly developed economy are directly transportable to theirs. The resources, the people, the governments, and geography are dissimilar from those that played such a leading role in the development of the American economy. Therefore, we must dismiss any thoughts similar to that expressed by the old saw, "What's good for General Motors, . . . ." In this vein, the peculiarities of private ventures are such that their profit schedules are based upon the degrees of risk involved in investment decisions. Accordingly, we must not fall into the position where our security interest is subjugated by rescuing a commercial venture from an unwise investment. Risk is a normal consequence of investment decision.

It is considered that the strategy which follows is complementary to the basic foreign policy of the United States and will

reinforce and give credence to it. Although geared primarily to the economic problem, the social and political benefits will be apparent.

The first element of the strategy should be to maintain a policy of avoiding intervention in the internal economic affairs of any Latin American country. This will not preclude contributions of assistance, as will be discussed later, but insists on the elimination of any semblance of economic domination. The reciprocal obligation features of the Alliance are not antithetical to a nonintervention policy if the primacy of United States participation is diffused. The communist countries have been quick to seize upon opportunities to cast their political epithets of "economic imperialism," "dollar diplomacy," and "economic slavery" toward the United States. It is not expected that such actions will be discontinued because of any changes in the U.S. strategy; however the credibility of such accusations will be considerably diminished when the United States ceases to play the principal role in the making of internal economic programs in Latin America.

From the standpoint of serving the national interests of the United States, it is recommended that our desire to assist in the development of Latin America be directed through a regional organization rather than directly with each country. The Alliance for Progress provides an appropriate vehicle through which our economic assistance can be directed. The Inter-American Committee for the

Alliance for Progress (CIAP), operating under the Organization of American States, emerges as an inbeing agency that could assume the direction of the program.

As was described earlier, CIAP is a multinational body to which the United States is a member. Performing primarily an advisory role, it reviews Latin American programs and makes suggestions to the countries about how they should initiate or accelerate their development plans. CIAP also has proven to be extremely effective in reminding the Alliance members of the self-help and disciplinary measures that must be achieved if economic and social progress is to proceed. The United States, however, has retained the final authority over the distribution of resources and approval of development programs, including the assignment of development priorities. Therefore, the full effectiveness and potential of CIAP is not realized.

Although inbeing less than two years, a serious shortcoming was noted by CIAP in its report of 24 March 1964:

"The Alliance for Progress was conceived as a harmonious national and regional effort. The two aspects should be interconnected, in order to accelerate, as much as possible, the process of development of the Hemisphere as a whole. Despite the multilateral nature that this conception of the Alliance for Progress implies, in practice it has taken a strictly national and bilateral tone. While each country has formulated its own national plan, there has not been any agency to give proper attention to the regional aspects. Thus the multilaterality of the Alliance for Progress has been frustrated, and all efforts have tended to be crystallized in a bilateral mechanism of financing."<sup>1</sup>

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<sup>1</sup>CIAP. Preliminary Meeting of the CIAP 17-26 Mar. 1964, p. 14.

It is recommended, therefore, that CIAP be given the authority to review, approve, and control the application of all Alliance external resources. It should establish regional policies that are binding upon all Alliance members governing foreign capital investments. CIAP should be empowered to coordinate the introduction of external assistance to assure equitable and rational distribution. Such a program would take into consideration the several development plans and assure the compatibility with the plans as well as the capital absorption capacity of the recipient.

It would be expected that CIAP would establish priorities of development encompassing the entire area and administer the funds necessary for the various programs and projects. This will remove any possibility of the United States exercising direct leverage on individual countries to induce specific actions. Our belief in rights of self-determination should certainly apply to the collective rights of the Latin American nations to select the priority in which they want to develop their countries. Such a policy will give international credibility to our entire foreign policy relating to self-determination and refute the charges of political hypocrisy.

Accepting the concepts of acting through a collective regional organization, in which we have a significant voice, certain responsibilities are incurred by the United States that



must permeate through all levels of our government. The conceptual framework already expressed must guide all subsequent policy decisions for the United States to assume the role of "willing responder" rather than the "reluctant initiator" in measures pertaining to Latin American development. The authority to introduce programs and actions must be limited to the regional organization.

In order to give greater life to making the Alliance for Progress a living force having a popular appeal, it is recommended that the OAS become the frame within which this multinational effort functions. The Treaty should be extended to a twenty year period with provision for revision after ten years. Since it has repeatedly been emphasized that the emergence of Latin America is a long process, it is appropriate that a lasting organization be created to administer the Alliance. At the Second Ministers Conference at Rio de Janeiro in November 1965, the United States committed itself to the continuation of the Alliance beyond the 1971 terminal date. Although a commendable and necessary position, it should be followed by a revision to the Charter of Punta del Este to reflect the permanence of the arrangement.

The proposal that CIAP administer the Alliance funds carries with it an appreciation of the realities of Congressional appropriations. A precedent, however, has been established to which the U.S. Congress has given support. The Social Progress Trust Fund is "endowed" by Congressional appropriations but is administered, not by the United States, but by the Inter-American

Development Bank. A similar technique is proposed for Alliance appropriations to be administered by CIAP. Upon receipt of the annual U.S. appropriated commitment, CIAP would be able to make rational decisions of priority determinations. The United States has already stated its unequivocal participation over the "long haul" permitting CIAP to perform long-range development planning on both a regional and country basis.

It must be added that frustrations will occur and events may disappoint us, but the permanence of the organization must not be jeopardized. It will be necessary to remind ourselves of the goals to be pursued, and that a Latin image of the United States is not expected. Further, the interest of our nation must dominate those of any particular group of our people. Once entered, the Alliance becomes an integral mirror of our national honor.

An additional policy pertaining to the United States responsibility concerns the employment of private funds. In the past, this has been a major source of funds as well as providing essential entrepreneurship training. Encouragement should be given U.S. investors to share in the program. The current AID provisions of risk guarantees, tax advantages, and other inducements should be continued. It should be encouraged, however, that private investments be undertaken only after consultation with appropriate elements of CIAP. Not only will investment opportunities be revealed by the CIAP country review studies, but compatibility

with the overall development planning will be achieved.

It is considered that an additional avenue is open that could contribute to the permanence of the investment structure and also to the prestige image of the United States. Since many of the Latin American countries have been stressing a degree of local equity participation, it is recommended that the United States encourage such practice. One method of equity participation is offered as an example of the type proposed. This would call for the issuance of common stock certificates as a profit sharing plan to the workers in the Latin American venture. The United States would permit tax "write-offs" for the value of the stock transferred. The objective would be to reduce U.S. citizen ownership to be not more than 30 percent of the corporation, spread out over a twenty year period. The result appears obvious when the "working proletariat" becomes stockholding "capitalists." The dangers of expropriation are lessened because of the local participation, and "Yankee Wall Street Exploitation" assumes a hollow ring.

A final word will be made on foreign trade relations with Latin America. Assuming a role in opposition to direct economic intervention, it is considered that discussions of economic integration and free trade areas, as well as common market considerations, can be best conducted as a community effort. The principles of reciprocity that have governed our trade relations throughout the world would govern U.S. agreements.

A special measure, however, is recommended that proposes a temporary divergence from the reciprocal trade agreement philosophy. This would permit the free entry of specified Latin American goods for a period of five years, but without reciprocal arrangements for American goods in Latin America. They should be permitted to protect their infant industries from being undersold by the more advanced and mechanized producers. Their exports would compete freely, however, with American goods in the world's markets. It may be that the market for some American goods will disappear, but new ones will open as the national wealth in Latin America increases. American business will profit considerably if a productive and advancing economy becomes established in this hemisphere.

An arrangement such as described above is not without precedent in the trade practices of the world. European nations give preferential treatment to their former colonies of Africa. The United Kingdom, likewise, gives preferential treatment to the exports of its Commonwealth. Latin America enjoys no such preferential arrangements in Europe. It is possible that ill will of the African countries might be created if Latin America were given preferential treatment and the "most favored nation" practice not be extended to underdeveloped nations outside the Western Hemisphere. If the premise is accepted that Latin America constitutes a vital ingredient in our national security, the trade concessions do not seem to be sacrificial.

As hemispheric solidarity increases around the ideology of cooperation in the Alliance for Progress, new meaning will be given to the Good Neighbor Policy. A community of viable western nations will emerge that are inextricably bound to each other into which communism can never penetrate.

It is, therefore, concluded that the potential exists for the development of a community of viable nations in the Western Hemisphere. The U.S. strategy will play a significant part in that development. It will be necessary to concentrate on the long-term goals and not be distracted by short-term developments, if the collective strength is to emerge that will preclude further communist penetration.

  
CLARENCE H. SCHMID  
Lt Col, USMC



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## ANNEX A

### Excerpts from the CHARTER OF THE ORGANIZATION OF AMERICAN STATES

#### Article 13

Each State has the right to develop its cultural, political and economic life freely and naturally. In this free development, the State shall respect the rights of the individual and the principles of universal morality.

#### Article 26

The Member States agree to cooperate with one another, as far as their resources may permit and their laws may provide, in the broadest spirit of good neighborliness, in order to strengthen their economic structure, develop their agriculture and mining, promote their industry and increase their trade.

#### Article 27

If the economy of an American State is affected by serious conditions that cannot be satisfactorily remedied by its own unaided effort, such State may place its economic problems before the Inter-American Economic and Social Council to seek through consultation the most appropriate solution for such problems.

#### Article 63

The Inter-American Economic and Social Council has for its principal purpose the promotion of the economic and social welfare of the American nations through effective cooperation for the better utilization of their natural resources, the development of their agriculture and industry and the raising of the standards of living of their peoples.

#### Article 64

To accomplish this purpose the Council shall:

- a. Propose the means by which the American nations may give each other technical assistance in making studies and formulating and executing plans to carry out the purposes referred to in Article 26 and to develop and improve their social services;
- b. Act as coordinating agency for all official inter-American activities of an economic and social nature;
- c. Undertake studies on its own initiative or at the request of and Member State;
- d. Assemble and prepare reports on economic and social matters for the use of the Member States;
- e. . . .
- f. . . .



## ANNEX B

### RESOLVES:

To create an Inter-American Committee on the Alliance for Progress (ICAP), in accordance with the following provisions:

#### I. NATURE AND PURPOSE

1. The Inter-American Committee on the Alliance for Progress shall be a special, permanent committee of the Inter-American Economic and Social Council for the purpose of representing multilaterally the Alliance for Progress and, in the same way, coordinating and promoting its implementation in accordance with the Charter of Punta del Este, and of carrying out the mandates of this resolution and those it receives from the Council of the Organization of American States or the Inter-American Economic and Social Council.

#### II. DUTIES AND FUNCTIONS

2. The Inter-American Committee on the Alliance for Progress shall carry out its duties and functions in keeping with the general orientation and lines of policy established by the Inter-American Economic and Social Council in its meetings at the ministerial level.

3. To fulfill the purpose set forth in the preceding chapter, the Inter-American Committee on the Alliance for Progress shall have the following duties and functions:

- a. To study the problems that may arise in connection with the Alliance for Progress and to resolve them or suggest solutions to the competent authority in each case, in accordance with the standards and policies established therefor.
- b. To promote continuing improvements in the process of giving the Alliance a more multinational character.
- c. To make an annual estimate of the financing actually needed for Latin American development and of the total funds that may be available from the various domestic and external sources.
- d. To make a continuing review of national and regional plans, steps taken, and efforts made within the framework of the Alliance, and to make specific recommendations to the members of the Alliance and to the regional organizations in the Hemisphere concerning those plans, steps and efforts. In discharging this duty, consideration shall be given to the evaluation reports of the ad hoc committees set up under the Charter of Punta del Este or those deriving from steps taken pursuant to paragraph 9 of this resolution.

e. On the basis of the estimates referred to in paragraph 3.c and the review and the recommendations referred to in paragraph 3.d:

- (i) To prepare and present proposals on the amount and sort of domestic resources each country would have to utilize to achieve the objectives of the Alliance, and
- (ii) To prepare and present annual proposals for determining the distribution among the several countries of public funds under the Alliance for Progress, referred to in Chapter V.7 of Title II of the Charter of Punta del Este, which contribute to the external financing of general plans and specific programs for the development of the Latin American countries, giving special consideration to the progress which, in line with its basic characteristics, each country makes toward reaching the objectives of the Charter of Punta del Este, and being especially mindful of Title I.1 of the Charter.

f. To cooperate with each country and with the Inter-American development Bank or other financial agents which the country may designate, in their negotiations with governments and with any other source of financing for the purpose of obtaining the external assistance required to finance their development programs and plans.

g. To coordinate those efforts with the Alliance which require multilateral action, such as economic integration, foreign trade policies of the area, and, in general those activities which are related to the economic and social development of Latin America and which are not specifically assigned to any other body.

h. To obtain information on the progress made in multilateral investment programs for integration purposes and, upon request by the countries concerned, to help in obtaining financing for such investments; in accordance with established criteria and procedures.

i. To coordinate the work of the special committees of the Inter-American Economic and Social Council and to decide upon the necessity for their meetings, which shall be convoked by the Chairman of the Inter-American Committee on the Alliance for Progress.

j. To review the budget of the Pan American Union for the Alliance for Progress, the budget of the Program of Technical Cooperation, and that of any other specific multilateral fund, as prepared by the General Secretariat for approval by the Inter-American Economic and Social Council.

k. To review the program and budget prepared by the Secretary General with respect to the regular operations of the Secretariat within the purview of the Inter-American Economic and Social Council--including the items for permanent professional and administrative personnel; for the operation of the Inter-American



Economic and Social Council, the Inter-American Committee on the Alliance for Progress, and the Panel of Experts and for overhead directly related to these operations--for approval by the Inter-American Economic and Social Council, in accordance with Article 19.f of its Statutes.

1. To establish its Regulations and the rules of procedure it considers advisable for the performance of its functions.
4. The member states agree that, when providing financial and technical assistance through their own agencies and when instructing their representatives in the various international organizations that provide such assistance, they shall give special consideration to the recommendations of the Inter-American Committee on the Alliance for Progress, in accordance with paragraph 3.e.(ii), regarding the distribution of external public funds under the Alliance for Progress.

### III. MEMBERSHIP AND OPERATION

5. The Inter-American Committee on the Alliance for Progress shall be composed of a chairman and seven representatives of the member states of the Organization of American States. Each representative shall be entitled to one vote.

The chairman shall be elected for a three-year period and shall be eligible for re-election for one term only.

The representatives of the countries, proposed thereby, shall be appointed by the Inter-American Economic and Social Council for a two-year period, on the basis of the same distribution agreed upon for electing the Executive Directors of the Inter-American Development Bank (IDB) at the election immediately prior to each period. Such distribution shall not apply to the five countries of Central America, which, as a group, shall propose one representative.

At the time of the first appointment, three of the six members who represent the Latin American countries shall be selected by lot to serve for one year.

A member of the Inter-American Committee on the Alliance for Progress may be re-elected only in the event that the countries which proposed their appointment indicate to the Inter-American Economic and Social Council that this be done.

When in the exercise of its functions the Inter-American Committee on the Alliance for Progress is to consider matters specifically concerning a given country, it shall invite that country to appoint an ad hoc representative.

6. The Secretary General of the Organization of American States (OAS), the President of the Inter-American Development Bank (IDB), the Coordinator of the Panel of Experts, and the Principal Director of the Economic Commission for Latin America (ECLA) shall serve as permanent advisors to the Inter-American Committee on the Alliance for Progress and in that capacity may attend its meetings.

7. The Panel of Experts shall be the technical arm of the Inter-American Committee on the Alliance for Progress in carrying out its functions of evaluating development plans and programs, in the spirit of the provisions of Title II, Chapter V.3 of the Charter of Punta del Este, and, in general, it may be consulted by the Inter-American Committee on the Alliance for Progress in relation to other matters relating to its functions. The Inter-American Development Bank shall be the technical arm of the Committee in matters concerning the financing of Latin American development.

The Inter-American Committee on the Alliance for Progress may request the technical advice of the Latin American Free Trade Association (LAFTA) and the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA) on matters of economic integration.

8. In conformity with existing provisions, the Inter-American Committee on the Alliance for Progress may invite representatives of governmental and non-governmental agencies, who are recognized international authorities and who may have a particular interest in matters to be taken up at given meetings, to attend these meetings as observers. The Organization for Economic Cooperation and Development (OECD) and the European Economic Community (EEC) shall be among the entities to be so invited.

9. Those countries which have only sectoral programs and those which have national development plans but do not request the formation of an ad hoc committee may come to an agreement with the Inter-American Committee on the Alliance for Progress as to the best way of evaluating their programs or plans in consonance with the aims of the Charter of Punta del Este.

10. In order to ensure more frequent information on the progress of the activities of the Inter-American Committee on the Alliance for Progress, the Chairman of the Inter-American Economic and Social Council, pursuant to Article 20 of its Statutes, shall convoke special meetings of the Inter-American Economic and Social Council at the ministerial level, when such shall be considered necessary.

11. The Inter-American Committee on the Alliance for Progress shall submit to the Inter-American Economic and Social Council for consideration an annual report on the fulfillment of its mandate and the draft resolutions that it may agree upon.

#### IV. CHAIRMAN

12. The Inter-American Economic and Social Council at the Ministerial Level shall elect an outstanding personality of the nationality of one of its members to be chairman of the Inter-American Committee on the Alliance for Progress. In addition to the functions and powers normal to the position, and to those which may be entrusted to him by the Inter-American Economic and Social Council and, on occasion by the Council of the Organization of American States, the Chairman shall be the permanent representative of the Inter-American Committee on the Alliance for Progress in actions required for rapid and effective execution of its decisions.

In the discharge of his duties, the Chairman shall be responsible only to the Inter-American Committee on the Alliance for Progress and the Inter-American Economic and Social Council.

The Chairman shall take office at a special ceremony in the presence of the Council of the Organization of American States.

#### V. SECRETARIAT AND HEADQUARTERS

13. The Executive Secretary of the Inter-American Economic and Social Council shall be the Secretary of the Inter-American Committee on the Alliance for Progress. Secretariat services shall be provided by the General Secretariat. Whenever the Chairman of the Inter-American Committee on the Alliance for Progress considers it indispensable to enlist the services of additional personnel in order to carry out the functions of the Committee more efficiently, he may request the Secretary General of the Organization of American States to take the necessary steps to appoint suitable persons.

14. The Inter-American Committee on the Alliance for Progress shall have its headquarters in Washington, D.C., United States of America, but it may hold meetings in any other city in the member states of the Organization of American States.